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MEANING OF THE RECENT EXPANSION OF THE FOREIGN TRADE OF THE UNITED STATES.

BY BROOKS ADAMS.

MR. PRESIDENT :—Before entering upon my subject I shall ask permission to explain my conception of the scope of economics, else, perhaps, I might seem to wander. I regard economics as the study of competition among men, or as an investigation of that struggle for survival which is the primal cause of wars and revolutions, of the strife of classes, of financial panics, and finally of that steady change which goes on from age to age in the type of populations,—a change occasioned by the elimination of such organisms as are unable to adapt themselves to the demands of an ever varying environment. Hence, in my judgment, economics embraces a large section of the whole field of human knowledge and experience, and the man who would deal with economics exhaustively should have many attainments. He should be an archæologist, and versed in military, political, and religious history, as well as in the history of jurisprudence and of institutions. He should be acquainted with numismatics, with mechanics, and with metallurgy. He should be profound in geography. He should be a linguist. Above all he should be a man of the world, familiar with the care of property, with the stock-market, and with methods of transportation and of administration. I certainly, can lay claim to no such equipment, and it is precisely because I have felt my own deficiencies that I thus estimate the qualifications of him who would succeed. Limited as I am, I attempt only to suggest, my hope

being to interest abler minds in certain phenomena which I deem vital to us all.

I apprehend that an inquiry into the "meaning of the recent expansion of the foreign trade of the United States" opens the gravest of economic problems, for that expansion is, probably, only one amid innumerable effects of a displacement of the focus of human energy. Such displacements have occurred periodically from the dawn of civilization, and of all phases of human development they are, perhaps, those which merit most to rivet our attention, since they have always been preceded by a wave of superb prosperity, and have left decay behind.

Furthermore, as no event is so far reaching as a shifting of the social equilibrium, so none exacts a more practical treatment, for men's weapons in the competition of life range from the mighty army to the pettiest details of the peasant's household. No economy is too small, no waste is too trifling to be neglected, for at each passing moment nature is selecting those organisms which work cheapest, and rejecting those which are costly. Also nature is omnipotent and merciless.

Thus communities rise and fall in proportion to their economy; but I insist that economy varies according to circumstances. Economy is adaptation to the conditions under which men compete, and these conditions are only learned through experience. Every science is based on experience, and we can draw no inferences regarding the future save such as we deduce from the past. Accordingly I submit that our inquiries into a subject such as this should begin at the beginning, no matter how remote that beginning may be.

I assume that we shall agree that the phase of development which we call civilization opened with the smelting

of the metals, for without relatively cheap metals the arts must have remained rudimentary. With metal man makes his sword, his plough, and his money; he also makes the tools with which he builds decked ships, and convenient wheeled vehicles. Evidently tribes adhering to wood or stone brought into contact with those using iron, bronze, or even copper, were destined to be evicted, enslaved or destroyed. They were comparatively wasteful either in war or peace. Hence ages ago the metals became a condition of existence in the more advanced regions of the world, and the position of the mines necessarily exercised a controlling influence over the current of international exchanges.

I propose to illustrate my theory by an examination of the first recorded displacement of energy, a movement which though comparatively simple, may serve as the prototype of all that have followed. I refer to the destruction of Nineveh. Nineveh's bloom lasted from about 1200 B. C. to toward 700 B. C., and Nineveh owed her supremacy not to natural resources, but to her geographical position, as the converging point of the routes leading from northeastern Asia to the Mediterranean. At an epoch when sea-going ships did not exist, and when the Dardanelles were closed, wares from the Punjab, Cashmir, and China, as well as from southern Siberia and Turkestan, could reach the Mediterranean most easily by one of two routes. Having gained Bactra, merchants might follow the highway which yet passes through Teheran, to the head of navigation on the Tigris. This point is now Mossul, and was formerly Nineveh, and from thence several routes led to the different Syrian ports. Secondly, travellers might cross the Caspian and, following the line of the modern railway to Tiflis and Poti, reach Trebizond by boat, whence

the road over which Xenophon marched goes by Lake Van to Nineveh. Of course, staunch ships were unknown at this remote period, and the Greek legends leave no doubt that before the siege of Troy the Black Sea was practically inaccessible. Therefore, in the main, the eastern trade went west by land, and accordingly the chief care of the Ninevite emperors was to police the roads along which this commerce flowed. Hence their endless campaigns both toward Syria and Armenia.

The Phoenician cities served as the outlets of the Mesopotamian empire toward the Mediterranean, and accordingly Tyre and Sidon rose with the rise of Babylon and Nineveh, and fell with their decay. Nor did the Phoenicians themselves prove unequal to their opportunity. They not only found a market for the commodities of the East, but they provided acceptable exchanges. Slaves and metals were the only two European products which Asia would receive in payment for her exports, and of the two the metals were the more important. From the outset the Phoenicians grasped the situation. They laid the basis of their future opulence by developing the copper of Cyprus, and afterward crowned their fortune by discovering the silver and gold of Spain, and the tin of Cornwall.

Meanwhile so long as Greece lay beyond the line of traffic, the Greeks were condemned to poverty. This they understood, and such legends as that of the Minotaur, and of the golden fleece, tell plainly enough of their weakness, and of their aspirations. At last they tried war. They sacked Troy, forced the Dardanelles, penetrated into the Black Sea, and entered on the race for supremacy. Starting from Miletus these adventurers slowly spread along the coast of Asia Minor, and, passing the Bosphorus, planted colonies at all the outlets of

the Bactra trade, their most important stations being Panticapaeum, Phasis, and Trapesus. Thus they opened direct water communication between the Oxus and Gibraltar, by way of Corinth and Syracuse. In consequence the lines of transportation straightened, Nineveh fell into eccentricity, and the chronology tells the rest. By about 700 B. C. the Greeks are supposed to have firmly established themselves throughout the Euxine, and fifty years later the prophet Nahum foretold the destruction of Nineveh. The catastrophe did not lag. Nineveh fell in 606 B. C. and Babylon soon followed. In 538 B. C. Belshazzar read the writing on the wall, and by 500 B. C. a new military race reigned in Chaldea. Nevertheless revolution brought no cure, for the disease which wasted Mesopotamia was inanition caused by the diversion of her trade. Accordingly Darius had hardly mounted the Babylonian throne before he planned the annihilation of his successful rival. The Persian invasion of Hellas began with the battle of Marathon in 490, and ended with Platea in 479 B. C. From that defeat Persia never rallied. By 400 B. C. she had rotted to the core, and Xenophon on his march to Trebizond found nothing to oppose him. In 330 the end came with the slaughter of Darius and the triumph of Alexander. Toward 450 B. C. Athens, nourished by the mines of Laurium, reached her zenith, while the superb coinage of Syracuse indicates that this wonderful metropolis of international exchanges culminated contemporaneously.

The inference is that during the Persian wars the world's centre of energy moved from Mesopotamia to the Ionian Sea, and that the consolidation which there took place served as the basis of the economic system which subsequently sustained the Roman empire. This

example of a change of social equilibrium is valuable because of its simplicity. It can be readily analyzed because ancient exchanges were comparatively rudimentary. The West had little beyond its metals. The East possessed the rest. During the Roman period manufactures never passed the Adriatic; in agriculture Egypt undersold even Sicily, while Arabia, India and China supplied spices, silk and gems. Europeans had, therefore, to maintain the balance of exchanges with gold, silver, copper and the like, and, as the Romans were not inventive and hardly improved on the Phœnician methods of mining, the waste was prodigious. Moreover, the Romans met defeat in their attempt to open up Germany. Hence while the demand for metal increased, the supply diminished; therefore, the empire had hardly been organized before it began to spend its capital. And as it could neither extend its source of supply, nor meet eastern competition, it became bankrupt when the mines of Spain failed.

These facts suggest inferences which may aid us in interpreting the phenomena of the present time. First: the evidence tends to show that at a remote antiquity the need of metal stimulated men to explore toward the West. In the West they found what they sought. Hence civilization has spread westward. Second: as the source of metallic supply has receded the diameter of the economic system has enlarged, and as the diameter of the circle has enlarged, the centre has been displaced. By such movements the stability of the social equilibrium has been shaken. Third: the social equilibrium has been disturbed, because, as the centre of the economic system has moved, the trade routes have changed to correspond, and the ancient capitals have been thrown into eccentricity. This signifies ruin for the city, and an-

nihilation for the population. Lastly: it seems clear that war is as essentially an instrument of commercial competition, as is trade itself; that, indeed, war is only commercial competition in its intensest form. All the facts point to the conclusion that war is regularly kindled by the heat engendered by the impact upon an established economic system of a system which is consolidating. Hence the outbreak of war at certain stages of development must be regarded as a usual, if not an invariable phenomenon.

To trace in detail the rise of England is impossible. It must suffice to say that during the middle ages the financial metropolis lay in northern Italy, as in a remote antiquity it had lain in Mesopotamia. This equilibrium lasted until the inflow of gold and silver from Mexico and Peru projected the centre of exchanges westward, much as the inflow of the Spanish metals had projected it two thousand years before. Also during the 16th century England laid the basis of her future fortune by robbing Spanish treasure, and when Spain retaliated as Persia had done, the Armada met a defeat as decisive as Xerxes met at Salamis. Thenceforward the current flowed north, and when Great Britain emerged from her conflict with her chief rival in 1815, she held an economic supremacy more absolute than that of Rome. The British supremacy surpassed the Roman because resting on broader foundations. England not only served as the world's distributing point like Nineveh, as the world's carrier and explorer like Phoenicia and as the world's banker like Rome, but her supply of useful metals gave her a substantial monopoly of manufacturing during two generations. Instead of being drained by the East, she undersold India. Lastly down to 1845 English agriculture nearly sufficed for the

wants of the English people. Roman agriculture failed after the Punic wars.

No such favorable combination of conditions had previously existed, and an equilibrium so stable defied attack until shaken by the series of events which propelled the United States along the path which must presently end in her supremacy or her ruin. The first link in this chain of cause and effect was the discovery of gold in California in 1848, and upon that discovery has, perhaps, hinged the destiny of modern civilization. A few figures may explain this proposition. Prior to 1848 not only had the United States been a poor country, but she had been a country whose advance had not been very rapid. She had indeed contended with overwhelming difficulties. Her mass outweighed her energy and her capital. Confronted with immense distances, and hindered from comprehensive methods of transportation by poverty, she could not compete with a narrow and indented peninsula like Europe. The change wrought in these conditions by the influx of gold was magical.

In the three years	1800-1802	the imports averaged	-----	\$ 93,000,000
" " "	"	1848-1850	" " " -----	154,000,000
" " "	"	1858-1860	" " " -----	316,000,000

That is to say there was an increase of 66 per cent. in half a century, and of over 100 per cent. in a decade.

Exports during	1800-1802	averaged	-----	\$ 78,000,000
" "	"	1848-1850	" -----	140,000,000
" "	"	1858-1860	" -----	299,000,000

A ratio of growth of 80 per cent. in fifty years, as against upwards of 100 per cent. in ten.

Iron was equally remarkable. In 1847 the exports of iron and steel stood at \$929,000, in 1858 they had quintupled, reaching \$4,884,000; while the authorities hold that the modern era of iron making opened in 1855.

But, perhaps, the most impressive of these phenomena was the accumulation of capital. In 1848 the total deposits in the savings banks amounted to \$33,087,488, an average per capita of \$1.52. In 1860 they reached \$149,277,504, an average per capita of \$4.75. This corresponds pretty well with the growth in purchasing power consequent on the yield of the mines. Between 1792 and 1847 the annual production of gold and silver had been less than \$500,000; in 1848 it passed \$10,000,000 and in 1850, \$50,000,000.

The stimulus proved decisive. As America was organized in 1848, all bulky commodities lying in the interior, away from navigable waterways, were unavailable, but gold and silver could be transported and sold. They were sold, and from their sale came both capital and credit. A comprehensive railroad system was thereafter attainable. The United States realized her opportunity and strained her means to the uttermost, but she did not anticipate the attack which awaited her, and the destiny of two continents has, apparently, hinged upon the catastrophe which accompanied the liquidation of the debt which she contracted to develop her latent resources.

In 1873 Europe refused to receive silver which then represented to the United States a cash asset of upward of \$35,000,000 annually. At the same time a fall in prices set in which reduced the value of wheat and cotton alarmingly. Ruin seemed impending, but the result of that convulsion has not met the anticipations of America's rivals. The United States suffered keenly for years, it is true, but she proved herself equal to the emergency. It has not been the debtor, but the creditor who has ultimately collapsed. What happened is nearly a reproduction of the decline of Nineveh.

Under the stress of competition the centre of metallic production has been projected westward, the seat of commercial exchanges has followed, the trade routes are straightening, London is falling into eccentricity, and Europe is being undersold. Approached from this standpoint the process stands out with the logical precision of a natural law.

When, in 1873, America's creditors rejected her silver, she had to sell her other commodities to them at what prices they would fetch, and the chief of these were farm products. It happened, however, that freights fell proportionately to other prices, and this fall in freight made the shrinkage in the worth of wheat more sensible in London than in Chicago, by the difference between the old and the new cost of transportation across the Atlantic. English farmers could not cope with the situation and presently land began to go out of cultivation. Then rents broke, and soon the aristocratic classes stood on the brink of insolvency. To save encumbered real estate, personal property had to be sold, and the best property the British owned was American securities. These accordingly they sacrificed, at first hesitatingly, then more freely, and at last in masses, until they exhausted the supply. Afterward they borrowed.

America, happily, can now afford to lend, but when first called upon to liquidate in haste, American society shook to its base. Deprived at once of her silver, and of much of the value of her other merchandise, the United States had to meet the deficiency with gold. Accordingly gold flowed eastward. In the single year 1893 the United States exported, on balance, \$87,000,000, a sum probably larger than any community has been forced to part with under similar conditions. Such a pressure could not continue. The crisis had to end in

either insolvency or relief, and relief came through an exertion of energy, perhaps without a parallel.

In three years America reorganized her whole social system by a process of consolidation, the result of which has been the so-called trust. But the trust, in reality, is the highest type of administrative efficiency, and therefore of economy, which has, as yet, been attained. By means of this consolidation the American people were enabled to utilize their mines to the full; the centres of mineral production and of exchanges were forced westward, and the well known symptoms supervened. The first of these symptoms was war. The peculiarity of the present movement is its rapidity and intensity, and this appears to be due to the amount of energy developed in the United States, in proportion to the energy developed elsewhere. The shock of the impact of the new power seems overwhelming.

Only four years ago, in March, 1897, America completed her reorganization, for in that month the great consolidations at Pittsburg first undersold Europe in steel. Immediately Spain and China disintegrated, England entered on a phase of decay corresponding pretty exactly to that which Spain passed through under Philip II, Germany sought relief by attacking China and attempting to absorb her mines, while Russia collapsed. The reason for these catastrophes apparently is that no nation so suddenly ever attained to such a commanding position as the United States now holds, because no nation ever succeeded in so short a time in developing such resources so cheaply. In truth the United States lying between two continents with ports on either ocean connected by the most perfect of railroads, without mountains to make transportation costly, as in Asia, with the great lakes penetrating the interior,

with unlimited gold and silver, iron, coal and copper, with a fertile soil and an enterprising population, and with the whole social system, including industry, transportation and farming, administered with a precision elsewhere undreamed of, enjoys not the advantages of Nineveh or Syracuse, of Rome, of Lombardy, or of England separately, but of all of these combined, and her attack is proportionately cogent. Hence the centre of gravity of human society is shifting very rapidly, the seat of mineral production and of commercial exchanges is migrating westward, the lines of transportation are straightening to correspond, and London is ceasing to be the universal mart. A glance at the charts showing the course of ocean steamers during the past twenty years will indicate the direction of trade.

As with Nineveh, so with London. As the volume of American exports has grown, so has the tide of exchanges set more decisively against Great Britain until her people have literally eaten up the accumulations they once possessed in America. Her accumulations depleted, she now lives by borrowing. Well informed authorities in Lombard Street estimate that during the past summer \$400,000,000 of French cash have been in constant use to maintain the balance of the Bank of England and to float the public loans. All admit that the London money market is completely dominated by French bankers. Certainly English shipping retains its relative importance, but its actual profits are problematical, if not to owners, at least to the nation at large. British vessels habitually obtain outward cargoes of coal, and homeward cargoes of provisions or ore. The *Economist* has calculated that 40 per cent. of the coal nominally exported goes to coaling stations and is sold to English seamen. Its price, therefore, becomes an

item of freight, and is paid by the purchaser of the merchandise transported. If that merchandise happens to be ore or provisions it is paid by Englishmen, and is dead loss. The British iron mines are failing, the copper mines have failed; therefore ores have to be carried to England. The British fields no longer yield food, therefore Great Britain has to pay Americans to feed her, and pay for the transport of what they have to buy. Meanwhile the British spend upon the basis of the lavish profits of old, even when the profits are gone, and hence comes that drain of gold which once prostrated Rome, and afterward desolated Spain, and which has always lead to pillage. When Philip resolved to crush the Netherlands, Alva boasted that he would make treasure flow from Flanders in a stream a yard deep, and the policy of Philip toward the Dutch was nearly parallel to the policy of Lord Salisbury's cabinet toward South Africa. It is superfluous to observe that with Spain and England alike the speculation failed through lack of military energy.

Germany also has been perturbed. Years ago Germany was organized to meet English competition, and while England regulated the pace Germany paid a dividend on her investments. When American trusts entered the field this profit disappeared, and Germans now comprehend that they must adjust their whole system of agriculture, industry and transportation to a new standard. Furthermore, conceding this to be done, success is problematical, for Germany can never match her bulk against the bulk of the United States, or her mines against American mines. She must always buy her raw material. Also Germany must face the destruction of her beet sugar industry through the loss of the American market by Cuban competition.

Russia has, however, suffered most, for her unwieldy shape and ill-situated ports make her transportation costly, and beside her population is hopelessly archaic and therefore wasteful. Administration is the last and highest product of civilization; a primitive community is primitive, precisely because it lacks the administrative faculty. It is the old struggle between the Stone Age, and the metals. Were the Elizabethans resuscitated and made to compete with us they would assuredly starve; and Russians starve. The vice begins at the base. The communal land-tenure still prevails. That tenure indicates an intellectual development more than three centuries behind the American, and accordingly communal land is supplemented by an appropriate civil service. The payment to officials of fixed salaries instead of fees, is an advanced economic conception. The primitive man holds it to be cheaper for each individual to pay for the service he needs, as citizens now pay doctors or lawyers. The fee system even yet lurks in America. All primitive societies, however, prefer fees, hence the official does not work unless he is paid. Fees breed delay, waste and peculation. So it is that all Russian undertakings are excessively wasteful, and this explains why the Siberian Railway, for example, should have cost two or three times the estimates, and when finished need rebuilding. The industries are in a like plight. The Russians have never yet succeeded in working their gold to a profit, much less their manufactures. Not being rich or mechanical the Russians have had to induce strangers to organize their plants, and, as there is no private demand for steel, they have offered as an inducement a protective tariff and state contracts at high prices. But to pay for the steel thus produced, the government has had to borrow, and the price

has gone abroad as dividends. Then more money is needed to keep the works employed, and more loans are made, and when loans cannot be negotiated insolvency supervenes. In Paris they estimate that Frenchmen have this year lost upwards of \$150,000,000 in a crisis which borrowing may alleviate but cannot cure. Finally the burden falls upon the peasant, who has nothing but his grain. These unhappy beings without money to buy machinery, or intelligence to use it, without railways, or tolerable roads, without even the stimulus which comes from sole ownership of the land they till, ground down by taxes and subject to military service, are made to compete with the capitalistic system of Dakota, the machinery and energy of Nebraska, and the Pennsylvania Railroad. The conclusion is foregone. They perish by thousands from inanition. This year the London papers announce that Russian competition with American grain has substantially ceased.

These symptoms of energy at home and of collapse abroad point to a readjustment of the social equilibrium on an unprecedented scale. Unless all experience is to be reversed the ferocity of the struggle for survival must deepen until one of the two competing economic systems is destroyed. Were all other signs wanting we can see the shadow of the approaching crisis in the failure of the purchasing power of Europe which is reflected in our declining exports, and in the threats of retaliation which we daily hear.

Supposing the United States to push her advantages home, and drive her rivals to extremity, she appears to lie open to two methods of attack. European nations singly or in combination may attempt commercial exclusion somewhat on the principle on which Napoleon acted against England; or they may adopt a policy

which will lead to war, such for example as disregarding the Monroe doctrine. In case of war the United States is vulnerable through her communications. Like all centres of international exchanges the United States must preserve her outlets open else she will suffocate, and these outlets now embrace both oceans. On the same principle the kings of Nineveh, for centuries, waged ceaseless war against the Syrians and Egyptians on the west, and the Armenians on the north, to control the roads to the Black Sea and the Mediterranean.

Such is the first method of attack. The second is by opening regions which shall be to America what America has already been to Europe, to force mineral production once more westward. I forbear to enter upon a discussion of northern China. Those who are interested in the provinces of Shansi and Honan may find full details in Richthoven's work. This much, however, is clear. If such a people as the Germans could subdue those provinces, police them, organize them on the American basis, with labor trained and directed by Europeans versed in the American system, there seems to be no reason why America should not be undersold. The region is not unduly large, or distant from the sea, or costly to develop, or unhealthy, while its coal and iron are unparalleled in value. The problem of future civilization, therefore, promises rather to turn upon the capacity of Europeans to partition and reorganize China, and upon the attitude which the United States may assume toward the experiment, than upon natural physical difficulties.

Here then, I apprehend, lies the field of usefulness for modern economics. These complex questions involving peace and war, prosperity and ruin, are the profoundest which can absorb the mind. On them hinges

the existence both of individuals and nations. If economics, dealing with such questions in the light of the past, can in some degree illuminate the future, economists will not have toiled in vain.

We are debating no scholastic issue, but the burning topic of all time. Every rising power has been beset by opponents whom fear and greed have incited to destroy her, and the landmarks of history are the battles which have decided this struggle for survival. Think of the siege of Troy, of Marathon, of Arbela, and of Zama. Think of the sacks of Constantinople and of Antwerp; think of the Armada, of Blenheim, of Trafalgar and of Manila. On each day hung the fate of empires and of millions of men and women. From the dawn of time to yesterday, experience has but one lesson to teach us, the lesson that the conflagration kindled by the shock of two rival economic systems has uniformly been quenched in blood.

Economics can have no aim so high as to strive to shield our country from this ancient destiny by marking the path toward danger. Peril exists not for the sagacious and strong, but only for the feeble and the rash. If we would prosper we must be cautious and be armed. We must be willing alike to yield and to strike. If we cannot make ourselves beloved, at least by concessions we can make it profitable to live with us in peace. On the other hand by preparation we can cause all to fear us, and guard against attack. The prudent man will never fight unless in the last extremity, but if he must he will take care that victory shall be sure.